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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 001121

SIPDIS

STATE FOR EAP/MLS, EB; INR/B; PACOM FOR FPA; COMMERCE FOR
ITA JEAN KELLY; TREASURY FOR OASIA

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TAGS: [ENRG](#) [PGOV](#) [PINR](#) [ECON](#) [BM](#)

SUBJECT: ENERGY MINISTER: EXPORT RECEIPTS TRUMP POWER NEEDS

REF: A. RANGOON 1094

[1](#)B. RANGOON 1027

[1](#)C. RANGOON 381 AND PREVIOUS

Classified By: CDA Shari Villarosa for Reasons 1.4 (b,d)

[1](#)1. (C) Summary: A courtesy call on Burma's Minister of Energy, Brig Gen Lun Thi, revealed GOB confidence that it can generate increased revenues through natural gas exports while meeting domestic energy needs with new hydropower projects. Lun Thi, one of the GOB cabinet's longest-serving members, is well regarded and has been highly successful in his primary mission to generate hard currency through the export of natural gas. However, he, like others in the GOB, glossed over Burma's serious domestic energy crisis. A continuing reliance on expensive diesel fuel imports, and overly optimistic plans for hydropower solutions, means that the light at the end of Burma's energy tunnel will remain dim, if not unlit. End Summary.

[1](#)2. (SBU) On September 30, the Charge, joined by P/E Chief, called on Burma's Minister of Energy, Brigadier General Lun Thi. The Minister was joined by six aides, including his Deputy Minister, Brig Gen Than Htay, and U Sein Tin Win, the Managing Director of the state-owned Myanma Petroleum Products Enterprise.

DRILLING FORTH

[1](#)3. (U) Minister Lun Thi gave an overview of gas and oil exploration efforts in Burma, and said that to date the GOB has secured production sharing contracts (PSCs) for 16 of 18 offshore blocks. According to press reports, Daewoo International Corp. signed a formal agreement on October 3 to begin exploration of a new Rakhine offshore block; the company is head of a consortium that also includes India's Oil and Natural Gas Corp., the Gas Authority of India, and South Korea's state-run Gas Corp. Among seven active onshore blocks (all located in/near Rakhine State in western Burma), the GOB has secured four PSCs with companies from India, China, and South Korea.

[1](#)4. (C) Lun Thi said that preliminary drilling in the recently opened Rakhine offshore blocks, conducted primarily by Daewoo, had yielded minimally encouraging signs of new natural gas reserves, but he added that "we won't know all the results until February 2006, at which time we'll decide on next steps." The Minister noted that all the potential reserves in this region would be for export only and he outlined several post-production options, including direct exports or exports of electricity to be produced by a new power plant

[1](#)5. (SBU) According to Lun Thi, the GOB within the past few weeks instituted a new policy that reserves onshore exploration solely for domestic enterprises, with no foreign participation in any new projects. Offshore blocks, however, remain open to joint ventures. He also indicated that foreign investment might be welcome in downstream distribution arrangements (e.g. LNG plants and/or pipelines). The state would build projects to serve the domestic sector, although he was vague about revenue sources.

WHAT ENERGY CRISIS?

[1](#)6. (C) Lun Thi demurred, in part, when the Charge inquired about his ministry's plans for meeting domestic energy needs. He described his portfolio as limited to oil and gas issues, identifying the Ministry of Electric Power as responsible for domestic energy production. He stated, however, that Burma "doesn't need more natural gas for domestic consumption," explaining that the GOB would only keep oil or natural gas condensate and export all other fuels for hard currency. The GOB, he said, had no plans to pursue a gas-to-liquid (GTL) conversion plant for domestic energy, because it would require a prohibitively expensive investment of over one billion dollars.

[1](#)7. (C) When pressed to address Burma's well-known energy supply shortage, Lun Thi downplayed the crisis and said that hydropower is "a very sure" supply source for Burma. The GOB, he said, will complete "within the coming year" three of

four hydropower plants currently under construction. A massive 800 megawatt plant at Yeywa (near Mandalay) will be completed in 2008. He added that over the past year the GOB had converted 3,800 vehicles to natural gas, leading to a "significant reduction in fuel consumption." He acknowledged, however, that a primary use of natural gas export receipts is for the costly purchase of imported diesel that in turn accounts for a significant portion of Burma's paltry electricity grid.

BIO NOTES: A GOOD REPUTATION

18. (SBU) Bio Note: Minister Lun Thi, a confidante of Sr Gen Than Shwe, is one of the longest serving members of the GOB cabinet, having been appointed in 1997 when the regime underwent a major reshuffle and changed its name from the "SLORC" to the SPDC. Among foreign and domestic companies who interact with him on a regular basis, the 65-year old Lun Thi enjoys a reputation for good management and technical skills. He is a thorough military man ("A soldier who relies on the technocrats," he described himself) and graduated at the top of his class in 1962 from the prestigious Defense Service Academy.

19. (C) He is concurrently (since 2002) the Chairman of the Foreign Investment Evaluation Committee, with the authority to approve or reject export permits. He conversed easily in English, without an interpreter. Among recent courtesy calls at the cabinet level, Lun Thi has been the only Minister that actively encouraged his deputies to join in the conversation. One director felt comfortable enough to interrupt in Burmese so the Minister could correct himself on a factual point. End Bio Notes.

COMMENT: NO LIGHT AT THE END OF THE TUNNEL

110. (C) The Energy Minister's primary mission is to generate hard currency through the export of natural gas. Lun Thi's success in this regard, combined with his lack of responsibility for meeting domestic energy needs, probably accounts for his confidence and openness during this courtesy call, a remarkable contrast to other members of the cabinet who have been evasive, critical of sanctions, and overly rosy in their assessment of domestic conditions (refs A, B). Lun Thi did, however, gloss over Burma's deteriorating energy situation. By our estimate (ref C), Burma has a 30 percent shortfall in electricity supply, and spends over \$250 million per year on diesel imports, roughly one third of natural gas receipts. Projected hydropower sources will do little to close the growing gap and, according to many business sources, will certainly not be the engine of growth necessary for a small, but power-hungry industrial sector. End Comment. Villarosa